

AFFORDABLE HOUSING IN SAN LUIS OBISPO COUNTY

Wishful Thinking or One Step at a Time?

INTRODUCTION

Inherent natural beauty and a moderate climate, combined with limited development and population growth due in part to challenging overland access and limited inexpensive fresh water, have made San Luis Obispo County a desirable destination, both for tourists and for prospective new residents. The lure of the simpler life of small towns combined with the energy and sophistication supplied by a major university has and will continue to drive housing costs in the county well beyond the means of typical wage earners. The median sales price of single-family homes in San Luis Obispo County exceeded \$600,000 in February, 2006. Less than 10% of the County's households can afford to buy housing at this price.

As in other areas of California, the lack of affordable housing can make it increasingly difficult to maintain essential services including education, police and fire protection, health care, local government, and utilities, and to support businesses in the area including agriculture, tourism related, high-tech startups and others whose employees value the quality of life here. Some officials express the need for San Luis Obispo County to avoid becoming known as a "rich retirees' ghetto" as certain California communities are sometimes described.

Affordable housing can benefit the county by:

- ensuring that employers have access to high quality workers.
- enabling people to live near their workplaces, shopping and other frequently visited locations.
- providing housing opportunities for people within urban areas as an alternative to living in sensitive habitat areas and agricultural lands.
- allowing persons and households of all income levels to live in the County.

The cost of land, a fundamental obstacle, reduces desirability of private development of lower cost housing in an open market because a greater return on investment can be achieved in many other ways. Although a structure of federal, state and local government policies exists to enable public and private cooperation in producing and maintaining affordable housing, there remains a large gap between supply and demand. Thus, going forward, it is apparent a variety of approaches will be needed. No one magical solution is out there waiting to be discovered.

ORIGIN

The Grand Jury of 2004-5 looked at the City of San Luis Obispo Housing Authority and its processes for addressing housing needs for low income families, and concluded “public housing properties are virtually indistinguishable from adjacent and nearby private properties.” At the beginning of our term, this Grand Jury identified topics of concern, and again included affordable housing, an ongoing, many faceted issue in this county. In July, 2004, the County of San Luis Obispo issued an update to the General Plan Housing Element, with the next update due June 30, 2009. Included in the 2004 update were proposals for concept papers related to affordable housing including mobilehome park conversions, condominium conversions, and inclusionary housing. This Jury has focused on Manufactured Home Parks within the county with brief looks at Inclusionary Housing policies, and a new employee housing project sponsored by Cal Poly State University.

METHOD

As part of its investigation the Grand Jury:

- Interviewed
 - A resident from Sea Oaks Mobile Home Community, Los Osos
 - A resident from DunaVista Mobile Home Park, Oceano
 - A resident from Sunny Oaks Mobile Home Park, Los Osos

- A resident from Meadowbrook Mobile Home Park, Templeton
- A member of the San Luis Obispo County Board of Supervisors
- The San Luis Obispo County Supervising Planner of Housing and Economic Development, San Luis Obispo County Planning and Building Department
- The Executive Director of the San Luis Obispo County Housing Trust Fund
- The Executive Director of People's Self-Help Housing
- The San Luis Obispo County Auditor-Controller
- The Managing Director of Cal Poly Housing Corporation
- Attended meetings and/or reviewed the videotaped portions of the San Luis Obispo County Board of Supervisors dealing with a mobile home park conversion ordinance on November 9, December 14, February 27, and March 27
- Reviewed the following written materials:
 - Planning Commission Staff Work Program for Preparing a Permanent Ordinance
 - San Luis Obispo County Housing Element
 - "Commission Listening to Both Sides" by Dana Lilley; Viewpoint article in The Tribune; November 7, 2006
 - "Housing Issue Needs a Complex Approach" by Jerry Rioux; Viewpoint article in The Tribune; January 30, 2007
 - "How to Secure Mobilehome Parks' Future" by Jerry Rioux; Viewpoint article in The Tribune; March 21, 2007
 - "Mobile Home Residents Feeling Stuck" Los Angeles Times; March 1, 2007
 - "Builders Tack on Fees, Home's Future Buyers Pay for Them" Los Angeles Times; April 22, 2007
 - Summary of Assembly Bill 1542 (Mobile Home Park Conversion to Condominiums) <http://www.leginfo.ca.gov>
 - Housing Needs and Production Chart : San Luis Obispo County Planning and Building Department (see Appendix A)
 - "Concept Paper: Mobilehome Park Conversion Ordinance" San Luis Obispo County Department of Planning and Building; October, 2005

BACKGROUND

Satisfaction of Fair Share Requirements

The lack of affordable housing statewide has become so acute that the State Legislature currently requires all cities and counties to provide for affordable housing for all economic segments of the community and to specifically provide their “**fair share**” of the region’s housing needs. Each region’s “fair share” housing requirement is determined by the State Department of Housing and Community Development (HCD), with local allocations made by the San Luis Obispo Council of Governments (SLOCOG) in their Regional Housing Needs Plan. Appendix A shows San Luis Obispo’s share versus actual units built for 2001-2005, with just 12% of Very Low and Lower Income households’ needs being met.

All cities and counties in California must have a general plan that includes a housing plan – known as the “housing element.” The general plan serves as the local constitution for land use and development. Once adopted, it has the force of law – a local government cannot legally act inconsistently with its general plan.

Housing elements are updated every five to eight years. First, the regional council of governments allocates to each city and county a number of new housing units that it must plan for, broken down into four income categories from “very low” to “above moderate.” San Luis Obispo County issued their most recent housing element update in July, 2004, which included proposals for three new or modified ordinances aimed at producing and preserving affordable housing. While the law does not require cities and counties to build these new homes themselves, their housing elements must:

- Establish housing programs and policies that encourage affordable housing for people of all incomes and those with special needs.
- Demonstrate that they have enough land zoned for multifamily housing to build all of the homes needed for lower-income families.
- Reduce obstacles to housing development, such as density limits, excessive requirements for parking spaces, even community opposition.
- Describe how they will use available funding for affordable housing.

Thus far, California housing element law lacks strong sanctions for municipalities that don't comply, and only the threat of increased scrutiny and unfavorable comparisons with their neighbors induced many cities to make a better effort to produce a timely and effective housing element.

Manufactured homes (includes mobilehomes) are "single- family dwellings" transportable in one or more sections constructed to a federally preemptive standard.

In 1957, an industry group known as the Trailer Coach Association (TCA) representing "trailer" manufacturers sponsored legislation that made it unlawful after September 1, 1958 for any person to sell or offer for sale within California, any trailer not in compliance with construction regulations of the Department of Industrial Relations, Division of Housing. This was the first by any state to regulate trailer (also known as "trailer coaches") construction and the predecessor to today's modern codes regulating mobilehome, manufactured home, commercial modular, special purpose commercial modular, and recreational vehicle construction.

In the beginning, all types of trailers were entitled "trailer coaches" in the law and regulations. As time passed and manufacturers began producing specific types of units for different markets and uses, the names "mobilehome" and "commercial modular" emerged. In 1979, the name "special purpose commercial modular" came into use to separate smaller vehicular type commercial modulars with a high degree of mobility from those which are larger transportable structures generally intended for extended or permanent installation.

In 1976, the U.S. Department of Housing and Urban Development (HUD) adopted preemptive federal regulations for the construction of mobilehomes (now manufactured homes). The HUD definition for "mobilehome" was essentially the same as California's existing definition except that it applied only to single-family dwellings while a California mobilehome could consist of two dwelling units. In 1980 the U.S. Congress legislated a change in terminology from "mobilehome" to "manufactured home," that took effect on January 1, 1981. In 1982, HUD changed from "mobilehome" to "manufactured home," although "mobilehome" remains in popular usage.

A Manufactured Home Park Conversion Ordinance was proposed as part of San Luis Obispo County's Housing Element update in 2004. The county initiated this effort at the request of some mobilehome park residents. In 2003, as the county was preparing to update the Housing Element of the San Luis Obispo County General Plan, residents of a few mobilehome parks asked the Department of Planning and Building to prepare an ordinance regulating conversion or closure of mobilehome parks because they believed that state law did not provide adequate protection for the residents. After a preliminary review of state law, county staff concluded that, at a minimum, the uncertainties in state law warranted further investigation and analysis. There are 39 mobilehome parks with 2,634 spaces in the county, not including parks within the cities. Mobilehome parks comprise an important part of the affordable housing stock. Accordingly, the updated Housing Element adopted in 2004 included a program directing staff to "review existing ordinances and, if necessary, prepare an ordinance addressing proposals to convert mobilehome parks, including mitigation of impacts to existing tenants."

NARRATIVE

Mobilehome park owners have testified to the Board of Supervisors that the County Rent Stabilization Ordinance limits their return on investment despite the appeal process. This concern has led to proposed provisions in the ordinance that would aid park owners in selling existing parks either to residents of the park or to a non-profit entity intending to continue its operation. In particular, the San Luis Obispo County Housing Trust Fund assists in supporting resident buyouts and helping to arrange financing.

Resident buyouts are effective in avoiding conversion to other uses, and to preserve affordable housing for those currently living in a park. Once such a buyout occurs, generally rent stabilization no longer applies; further, when a resident or his/her heirs decide to sell a unit and its lot, the price will be at market rates and no longer as 'affordable', although still below that of conventional homes.

As envisioned by County Planners, some new mobilehome parks may be developed as higher density, two or more story manufactured modular homes in ‘fill-in’ locations within or close to existing municipalities, or replace older mobilehome parks with an accompanying zoning change.

No new mobilehome parks have been developed in San Luis Obispo County for more than 10 years because they are not viewed as attractive investments by many landowners. This is despite the fact that the county rent control ordinance, adopted by voter initiative in 1984, does not apply to any park created after 1984. Non-profit or resident ownership appears to be the most feasible approach for meeting the needs of future residents of mobilehome parks. The Grand Jury endorses the plans outlined by county planners which include a new Mobile Home Park Zoning category and other incentives intended to help preserve existing parks and encourage development of new parks, and full financial compensation for mobilehome park residents displaced by conversion or closure. Further, we predict the resulting ordinances will need revising from time to time as conditions evolve.

During the Grand Jury investigation, it became apparent that ensuring the availability of workforce housing and providing for other lower income residents will require a variety of approaches, and periodic review as mandated by the state fair share policy.

Two other approaches that the GJ felt worthy of mention are:

Inclusionary Housing

This refers to planning ordinances that require a given share of new construction be affordable to people with low to moderate incomes. The term *inclusionary* is derived from the fact these ordinances originally sought to counter *exclusionary* zoning practices by suburbs located near large cities which aimed to exclude affordable housing thus discouraging outward migration of lower income inner city residents. In practice, inclusionary policies involve placing deed restrictions on 10%-30% of new houses or apartments in a development of at least, say, five units, in order to make housing affordable for low to moderate income households. The developer can either build the required units or pay an in-lieu fee into a fund earmarked for affordable housing to be built in the same general housing area by a non-profit or for-profit group.

In return, developers are offered density bonuses and other incentives. A density bonus might mean, for example, that if the developer elects to build 20% of the units as affordable housing on-site, they would be allowed to increase the total number of units per acre by 20%. The mix of "affordable" and "market-rate" housing in the same neighborhood is seen as beneficial by many, especially in areas where workforce housing is in short supply.

Home builders have reacted in a variety of ways to inclusionary mandates. Some view the mandates as the cost of doing business in a profitable, high-cost area. Some believe that if density bonuses are provided, the builder can break even on the affordable units or even realize a profit. Other builders maintain that the requirements impose significant costs and regulatory burdens on the building industry and further increase the cost of market-rate housing in already costly areas, thereby making housing even less affordable for many families who are not eligible for the units built under the requirements.

Several cities within the county have adopted inclusionary housing policies as part of their housing element, and the County Planning and Building Department issued an Inclusionary Housing Concept Paper on May 13, 2005, with the intent of drafting an ordinance. Preparation on this and other County Affordable Housing Ordinances continues. A Draft Environmental Impact Report for the ordinances was issued February 28, 2007, with the public comment period open until April 30, 2007. Planning Commission hearings on the ordinances are likely later this year.

For these policies to succeed, buyers of new homes at market rate must be satisfied that the high quality of life in the area justifies their higher cost, and that population diversity and a competent local workforce contribute significantly to that quality of life.

Employee Housing

Another approach to workforce housing has recently been opened in San Luis Obispo by the Cal Poly Housing Corporation, a nonprofit affiliated with Cal Poly State University. A total of 69 condominiums, 2 or 3 bedroom from 1000 to 1600 sq. ft. in tri-plex or four-plex units, are intended to provide affordable living space for faculty and staff. Constructed on land already owned by the

University, the project has the advantage of being self-supporting and remaining affordable and available over time to future employees. The below-market prices will be adjusted upward annually by a fraction of the Consumer Price Index plus improvements made by the owner, and thus the units will not be desired as a speculative investment, however they should remain attractive to faculty and staff recruited from areas with lower housing costs. Should University employee demand fall short of supply, units will be made available as provided by a priority list to employees of other educational facilities within the county, public agency employees, or to the general public. A more detailed description of the project and policies can be found at www.bellamontanahomes.com/.

The Grand Jury believes that other large institutions, public or private, individually or in cooperation, could follow this example, particularly if a suitable site was already owned by one of the participating employers.

Other sources of funding for affordable housing in the county include **Community Development Block Grants (CDBG)**, and the **HOME Investment Partnerships Program (HOME)**, the largest Federal block grant to State and local governments designed exclusively to create affordable housing for low-income households. Both are available each year from the US Department of Housing and Urban Development and are administered locally through a coalition of county and city planners. The City of San Luis Obispo, for example, expects to receive about \$580,000 in CDBG funds in 2007, compared with \$960,000 in 2004, \$720,000 in 2005, and \$645,914 in 2006.

Another method of funding affordable housing is through local **redevelopment agencies** which have been established by most cities in the county. The State Redevelopment Act of 1945, with major revisions in 1951, 1976 and 1993, provides incentives to rehabilitate or upgrade existing urban neighborhoods with funding generated by the incremental increase in tax revenue.

The Housing Needs and Production chart in Appendix A shows the significant gap between the State Fair Share of Affordable Housing assigned to San Luis Obispo County and units actually built 2001-2005.

It may be necessary for local governments to consider other tactics over the long term if we are to close that gap. Building a county housing fund available to assist development of self-sustaining affordable housing projects may require exploring new financing methods. Private real estate transfer fees have been used in other areas of California to enable builders to preserve open space, fund affordable housing or programs for the homeless. Such fees, typically 1% of a transaction, are attached to the deed and charged each time a property is sold over a period of say, 25 to 50 years. Not yet in widespread use and now the subject of pending legislation in Sacramento, transfer fees have been found legal, however the general use of transfer taxes for a specific purpose are not allowed under Proposition 13. Using such a fee, or a parcel tax, could be a method of sharing costs among new and resale home buyers, or among all property owners.

CONCLUSIONS

The availability of affordable housing is an issue faced by many parts of California, and is being addressed in a number of ways. To ensure that housing is available for a variety of income levels, state 'fair share' law has placed requirements on local governments to meet targets, while allowing some flexibility in how to achieve those goals.

The most pressing need appears to be attractive, convenient, long term housing for the workforce of the county and their families, including teachers, police officers, fire and other emergency responders, health care providers, local government staff, and employees of businesses ranging from tourism to utilities to agriculture to high tech. A growing population of retirees, many on fixed incomes, also requires consideration in planning for housing.

Solutions take many forms; some are still evolving and will need periodic review to ensure they continue to address current and anticipated needs.

The Grand Jury supports the County's plans for improving Mobilehome Park stability and growth through incentives for development, provisions for resident ownership, and protections for current

occupants. We encourage County staff and the Board of Supervisors to continue their efforts on projects spawned by the most recent Housing Element, issued July, 2004.

The Grand Jury also commends the efforts of all non-profits that are actively working in this county to increase availability of lower cost housing, including People's Self Help Housing, Housing Authority of San Luis Obispo, Habitat for Humanity, and the San Luis Obispo County Housing Trust Fund.

REFERENCES

The following websites offer additional information on topics discussed above:

http://www.slocounty.ca.gov/planning/Housing_and_Economic_Development.htm Here are concept papers that describe proposed county regulations to preserve existing affordable housing, make it easier to build new affordable housing, and to require development of new affordable housing.

<http://www.ci.san-luis-obispo.ca.us/communitydevelopment/housing/housing.asp> The City of San Luis Obispo's Housing website

<http://www.hcd.ca.gov/> The California Housing & Community Development Department, with a link to **The Mobilehome Ombudsman**

<http://www.hcd.ca.gov/hpd/> Housing policy development, discusses Housing Elements, Residential Development Fees, and other related topics

<http://www.hcd.ca.gov/fa/cdbg/> Community Development Block Grants

<http://www.hcd.ca.gov/fa/home/> HOME Investment Partnerships Program

<http://www.hcd.ca.gov/rda/> Redevelopment Agencies

<http://www.bellamontanahomes.com/> Cal Poly employee housing project

<http://www.hcd.ca.gov/hpd/inclusionary0805.pdf> “SELECTED MATERIALS ON
INCLUSIONARY HOUSING ISSUES” *August 2005*

<http://www.sen.ca.gov/ftp/sen/committee/SELECT/MOBILEHOMES/home/senate.htm>
A listing of recent and pending California legislation on mobilehomes

APPENDIX A

Housing Needs and Production – San Luis Obispo County

	Very Low and Lower Income	Moderate Income	Above Moderate Income	Total
Unincorporated County Share per				
Regional Housing Needs Plan	1,807	929	4,284	7,020
Actual Units Built from 2001-2005	522	441	3,539	4,502
Percent Share Achieved	29%	47%	83%	64%
City of San Luis Obispo Share per	2,328	870	1,185	4,383
Regional Housing Needs Plan				
Actual Units Built from 2001-2005	60	96	814	970
Percent Share Achieved	3%	11%	69%	22%
Other Cities Share per Regional				
Housing Needs Plan	3,105	1,483	2,042	6,630
Actual Units Built from 2001-2005	305	476	3,122	3,903
Percent Share Achieved	10%	32%	153%	59%
Total Share per Regional Housing				
Needs Plan	7,240	3,282	7,511	18,033
Actual Units Built from 2001-2005	887	1,013	7,475	9,375
Percent Share Achieved	12%	31%	100%	52%

County of San Luis Obispo Planning and Building Dept.

NOTE: Actual units built are estimates based on data provided from cities and the County.

APPENDIX B

Affordable Housing Standards - Inland Areas

SAN LUIS OBISPO COUNTY DEPARTMENT OF PLANNING AND BUILDING

This bulletin summarizes the county's affordable housing standards *for non-coastal areas*, including maximum household incomes, home purchase prices and rents. These standards are effective May 1, 2007.

Income limits:

The state defines family income groups as follows: "**Extremely Low Income**" is defined by Health and Safety Code Section 50106 as 30% of county median income; "**Very Low Income**" is defined by Health and Safety Code Section 50105 as 50% of county median income; "**Lower Income**" is defined by Health and Safety Code Section 50079.5 as 80% of county median income; "**Moderate Income**" is defined by Health and Safety Code Section 50093 as 120% of county median income; "**Workforce**" is defined by Title 22 of the County Code as 160% of county median income.

Persons in Family	Extremely Low Income	Very Low Income	Lower Income	Median Income	Moderate Income	Workforce
1	\$13,500	\$22,450	\$35,950	\$44,900	\$53,900	\$71,840
2	\$15,400	\$25,700	\$41,100	\$51,400	\$61,600	\$82,240
3	\$17,350	\$28,900	\$46,200	\$57,800	\$69,300	\$92,480
4	\$19,250	\$32,100	\$51,350	\$64,200	\$77,000	\$102,720
5	\$20,800	\$34,650	\$55,450	\$69,300	\$83,200	\$110,880
6	\$22,350	\$37,250	\$59,550	\$74,500	\$89,300	\$119,200
7	\$23,850	\$39,800	\$63,650	\$79,600	\$95,500	\$127,360
8	\$25,400	\$42,350	\$67,800	\$84,700	\$101,600	\$135,520

Sample maximum sales prices: (see footnotes)

Unit Size (Bedrooms)	Extremely Low Income	Very Low Income	Lower Income	Moderate Income	Workforce
Studio	\$31,000	\$61,000	\$90,000	\$181,000	\$248,000
1	\$40,000	\$75,000	\$109,000	\$216,000	\$296,000
2	\$48,000	\$89,000	\$128,000	\$251,000	\$343,000
3	\$56,000	\$102,000	\$147,000	\$285,000	\$390,000
4	\$62,000	\$113,000	\$162,000	\$313,000	\$428,000

Note 1: Homeowner association fee assumed at \$100 per month.

Note 2: Mortgage financing assumed at 6.38% fixed rate for 30 years (per HSH Associates as of May 1, 2007).

Note 3: Prices shown are preliminary estimates and may be revised.

Note 4: Actual sales price limits will be determined by the County on a case-by-case basis. *Updated: 5/1/2007*